

CIP Projects with Annual O&M Costs to the General Fund – Administrative Guidelines

6.1.7

PURPOSE

The purpose of this Policy is to establish administrative guidelines for the implementation of the City Council approved Budget Principle pertaining to capital improvement projects with annual operating and maintenance (O&M) costs to be paid from the General Fund.

AUTHORITIES

On January 13, 2009, the City Council authorized the City Administration and Redevelopment Agency staff to finalize and implement administrative guidelines to ensure that individual plans and projects that will likely exceed \$100,000 in new annual General Fund O&M costs will have O&M cost estimates provided to be used in decision-making throughout the project development process.

SCOPE OF APPLICATION

The administrative guidelines outlined in this policy apply to all City of San José-funded capital projects, San José Redevelopment Agency-funded capital projects and turnkey (developer funded and constructed) projects with anticipated annual O&M costs in the City's General Fund.

POLICY

All capital improvement projects with anticipated annual O&M costs in the City's General Fund will be included in the Five-Year General Fund Forecast. In addition, recommendations for City Council action on individual plans and projects that exceed the \$100,000 threshold will explicitly include O&M estimates, and associated policy discussions, throughout the project development process. These costs will be summarized and reported as part of the General Fund Five-Year Forecast with City Council certification recommended for approval as part of a) the annual capital budget adoption process, or b) individually for major projects not included or modified since budget adoption.

DEFINITIONS

City of San Jose-Funded Capital Project

A project that is included in the City's Five-Year Capital Improvement Program (CIP).

San Jose Redevelopment Agency-Funded Capital Project

A project that is included in the Redevelopment Agency's Five-Year Capital Improvement Program, including SNI projects.

Turnkey Project

A project that involves a turnkey agreement with a private developer in order to allow for the development of public improvements, such as parks, trails and community gardens.

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PROCEDURES

To ensure that potential O&M impacts to the General Fund are identified and brought to Council for consideration in a timely manner throughout the year, the following process will apply to the development of all new capital improvement projects initiated by both the City and Agency:

1. During the early stages of project development, project delivery staff will coordinate with staff from City operating departments to assess whether a particular capital improvement project or turnkey project will result in an ongoing O&M cost impact to the General Fund.

Specifically, when funding is allocated for purposes of proceeding with **project development activities, such as community outreach or a project feasibility analysis**, staff will need to determine whether the proposed project will result in an ongoing O&M cost impact to the General Fund. If it is determined that a proposed capital project will have an ongoing O&M cost impact to the General Fund, staff will need to work with the operating City Department to estimate the amount of ongoing costs and ensure alignment with City strategies prior to commencing with community outreach. The estimated O&M cost implications for a proposed project should be shared with the public during the outreach process to ensure that discussions of neighborhood and community priorities are balanced against the potential for ongoing O&M costs to the City's General Fund.

2. If it is determined that a proposed capital project will have ongoing O&M costs, staff will need to work with the operating City Department to complete [Worksheet Number 5 \(Operating and Maintenance Budget Impact\)](#) to estimate the amount of ongoing O&M costs. Completed worksheets should be coordinated with the operating City Department and submitted to the City Manager's Budget Office.
3. O&M costs for specific projects will be reported to Council for consideration during the City's Budget Review Process, as outlined in the following table.

Budget Report	Deadline to Budget Office	Timeline to City Council	Purpose
Preliminary General Fund Forecast	August	November	Update all capital projects previously approved by the City Council through a CIP or Agency Budget with General Fund O&M costs and include these costs in the Forecast. New projects not previously approved by the City Council are identified separately.
Final General Fund Forecast	December	February	Update all capital projects previously approved by the City Council through a CIP or Agency Budget with General Fund O&M costs and include these costs in the Forecast. New projects not previously approved by the City Council are identified separately.

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Proposed Capital Budget	January	April	City Council certification for all new projects not previously certified or included in a prior Adopted CIP or Agency Capital Budget with annual O&M costs greater than \$100,000. If certified by the City Council, include in the next Five-Year General Fund Forecast.
Proposed Agency Capital Budget	N/A	August	Include certification for all new projects not previously certified or included in a prior Agency Capital Budget and not included for certification in the City's Proposed Capital Budget

Projects with annual General Fund O&M costs exceeding \$100,000 will be detailed for City Council consideration and certification. The anticipated operations and maintenance costs for each project will be shown along with the applicable year of the cost impacts. The information provided will distinguish existing/ongoing projects previously approved by the City Council and included in previous General Fund Forecasts from new projects that have not been previously certified or approved by the City Council through an Adopted CIP or Agency Capital Budget. The calculation of "new" costs will deduct current costs to be eliminated by a planned project. Accordingly, projects that will clearly result in a net General Fund savings compared to current expenditures will not be required to conduct detailed analyses.

4. In addition to reporting O&M costs to the City Council as part of the City's annual Budget Review process, incremental budget principle certification, if necessary, for projects exceeding \$100,000 in annual O&M that are brought forward to Council for consideration and action will include language in the Council Memo pertaining to potential O&M costs. A project will require certification action outside of the annual budget development process if it was not certified as part of the preceding annual CIP adoption and is likely to proceed to design prior to the next CIP adoption. Specific milestones for reporting this information will vary for individual projects, but would include the following stages of project development when City Council approval is otherwise involved:
 - a. Approval of real property acquisitions for public facilities (excludes land banking)
 - b. Adoption of SNI neighborhood plans, master plans and concept plans that include new or renovated public facilities
 - c. Approval of architectural, engineering, and construction management agreements for public facilities
 - d. Award of construction contracts for public facilities
 - e. Approval of agreements with developers for turnkey projects for public facilities

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Recognizing that information will be less certain at the earliest stages of project development, estimates may be limited to ranges and non-specific future dates when

necessary but will reflect the best available estimate of costs associated with long-term City responsibility for the project. As noted above, land banking, where future uses have not been specified, would be exempt from this requirement. As costs are further defined throughout the project development, updates of these costs will be highlighted through the Forecast, CIP, or when requiring subsequent City Council action related to development of the project.

SNI neighborhood plans, program level master plans and concept plans represent visioning documents that typically result in the development and implementation of subsequent capital projects. In such instances, staff will provide the best available estimate of O&M costs at the time of plan approval, but City Council O&M certification action will be tied to the subsequent projects and not required for the plan.

Where annualized estimates can be made, the information will be presented as noted below:

For projects with significant O&M impacts (SAMPLE LANGUAGE):

“OPERATING COSTS: The proposed operating and maintenance costs for this project have been reviewed and will have the following impact on the General Fund operating budget.

	<u>FY 09-10</u>	<u>FY 10-11</u>	<u>FY 11-12</u>	<u>FY 12-13</u>	<u>FY 13-14</u>
<i>Maintenance:</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>
<i>Operating:</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>	<i>\$000,000</i>

(Upon Council approval to proceed with the next phase of project development) the proposed operating and maintenance costs have been (will be) included in the Five-Year General Fund Forecast.”

Projects with O&M costs under the level required for City Council certification shall be identified as part of this process. Upon City Council approval and certification, O&M costs shall be included in subsequent General Fund Five-Year Forecasts.

Approved:

/s/ Ed Shikada
Chief Deputy City Manager

June 23, 2010
Date

* On January 13, 2009, the City Council approved staff's recommendation to finalize and implement administrative guidelines pertaining to capital improvement projects with annual O&M costs to be paid from the General Fund.